# National Medical Care Company

**1Q2019 Results Review**

**6 May 2019**

Saudi Fransi Capital

## Margins Positively Surprise

**SAR 56** — 12-Month Target price

**Buy** — Recommendation

Care announced weak revenues but substantially higher margins, resulting in solid earnings beat with SAR 0.67 EPS (+17% Y/Y) vs our SAR 0.52 estimate. Specifics not provided in preliminary results, but one possible explanation could be gradual wind-down of underperforming services and associated personnel costs. If NMC is actively involved in right-sizing expenses, we should expect further gains in the coming quarters. At first glance, it appears that one of the scenarios we foreshadowed is starting to materialize: squeeze the asset and forego topline growth. There is room to run further, reiterate Buy and SAR 56 target price, representing 13.2x 2019E EV/EBITDA.

**Revenues contract sharply**

Patient figures not disclosed, however preliminary numbers suggest further contraction as revenues declined -13% Y/Y to SAR 179 mln, missing our SAR 210 mln forecast. While we had expected some improvement in volume as government projects kick-off in 2019, driving growth in manual labor, the progress appears slow through 1Q. Care accepts large portion of workplace injury cases through its locations in Riyadh. Local media citing GOSI statistics through 4Q18, indicates some 554k decline in workforce since 4Q17. Workplace injuries during the quarter were 7,776 with 3,372 receiving treatment in hospitals.

**Cost savings generate margin expansion**

Gross margin improved to 27% from 25% in year ago period, despite higher foreign worker fees and natural wage inflation. We estimate some 70% of cost of sales is fixed, primarily caregivers. Early to say if Care is optimizing medical staff by gradually winding down underperforming specialties, although this would support sharp revenue contraction. Alternatively, lower long-term care patients may be supporting margin growth.

**Earnings beat estimate**

At first glance, SG&A appears substantially lower (c. 30%) versus 1Q18. Consequently, net income of SAR 30 mln (+17% Y/Y) comfortably topped our SAR 23 mln forecast and consensus SAR 25 mln.

**KSA healthcare remains attractive for longer-term investors**

Over the TTM, KSA healthcare sector has widely underperformed the TASI at -21% vs +13% for a variety of reasons. Namely, large caps (specifically banks and petrochemicals) have pushed the broader market higher on strong earnings through 2018 plus index flows mainly targeting large caps. Additionally, healthcare has been under pressure due to weak earnings (departing expats, pricing pressure, insurance coverage downgrade, wage inflation). We believe KSA healthcare remains attractive as demand for services will remain intact, albeit at lower margins, and volumes will recover due to privatization initiatives. We continue to recommend exposure to the sector for investors with a longer-term horizon (post index implementation) to take advantage of relatively attractive valuation. Care trades 12.3x 2019E EV/EBITDA and remains Buy, despite recent share price recovery (+9% since our upgrade on 14 Jan).

| *SAR mln* | 1Q19 | 1Q19E | 1Q18 | *Y/Y Chg* | 4Q18 | *Q/Q Chg* | *Variance* | Consensus |
|---|---|---|---|---|---|---|---|---|
| Sales | 179 | 210 | 207 | *-13%* | 182 | *-1%* | *-14%* | 200 |
| Gross profit | 48 | 48 | 52 | *-7%* | 32 | *50%* | *-1%* | |
| *Gross margin* | *27%* | *23%* | *25%* | | *18%* | | | |
| Operating profit | 36 | 28 | 32 | *13%* | 13 | *181%* | *28%* | |
| *Operating margin* | *20%* | *13%* | *16%* | | *7%* | | | |
| Net income | 30 | 23 | 26 | *17%* | 5 | *516%* | *28%* | 25 |
| *Net margin* | *17%* | *11%* | *12%* | | *3%* | | | *12%* |
| EPS (SAR) | 0.67 | 0.52 | 0.57 | *17%* | 0.11 | *516%* | *28%* | 0.55 |

**Stock Details**

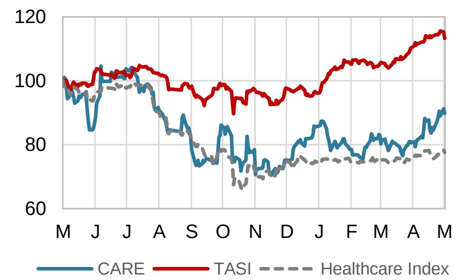
| | | |
|---|---|---|
| Last Close Price | SAR | 52.60 |
| Upside to target | % | 6.5 |
| Market Capitalization | SAR mln | 2,359 |
| Shares Outstanding | mln | 45 |
| 52-Week High | SAR | 65.40 |
| 52-Week Low | SAR | 40.00 |
| Price Change (YTD) | % | 4.6 |
| 3-Mth ADTV | thd | 166 |
| EBITDA 2019E | SAR mln | 178 |
| Reuters / Bloomberg | 4005.SE | CARE AB |

| *SAR mln* | 2018 | 2019E | 2020E |
|---|---|---|---|
| Revenues | 764 | 805 | 810 |
| *Gross Margin* | *22%* | *24%* | *24%* |
| EBIT | 88 | 107 | 110 |
| *Operating Margin* | *12%* | *13%* | *14%* |
| Net Income | 62 | 82 | 85 |
| *Net Margin* | *8%* | *10%* | *11%* |
| EPS (SAR) | 1.39 | 1.84 | 1.90 |
| DPS (SAR) | 1.00 | 1.25 | 1.50 |

**Price Multiples**

| | 2018 | 2019E | 2020E |
|---|---|---|---|
| P / E | 37.9x | 28.7x | 27.7x |
| EV / EBITDA | 13.6x | 12.3x | 11.9x |
| P / S | 3.1x | 2.9x | 2.9x |
| P / B | 2.4x | 2.4x | 2.3x |

**1-Year Share Performance (rebased)**




*Source: Bloomberg, Tadawul, SFC*

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# Research and Advisory Department

## Rating Framework

**BUY**

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

**HOLD**

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

**SELL**

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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